



December 20, 2004

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Office of Financial Management
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Dear Vicki,

We want to comment on your recently produced briefing paper entitled "*Public Financing and Uncompensated Care Provided by Washington State Community Hospitals and Community Health Centers.*" We appreciate the Office of Financial Management tackling this timely and important topic. The paper gathers some important facts and information on the topic.

We agree with the conclusions of the paper that it is time to review the options and open discussions about allocating dollars to most effectively impact the health of Washingtonians. Our hospitals provide a safety net of care and are struggling to deal with increasing numbers of uninsured patients. We have several concerns, however, about the issues presented in the paper. We do not believe the way to solve the problem of the uninsured is by increasing the burden to hospitals in Washington State.

Charity and Uncompensated Care

The briefing paper recommends increasing charity care requirements for Washington hospitals and requiring them to provide free care for individuals with incomes up to 200 percent of poverty and discounted care for individuals up to 400 percent of poverty. Such action would be a mistake. As the paper suggests, a better approach would be to provide the residents with health insurance. We agree with providing insurance and strongly disagree with placing the burden on hospitals and other providers.

It is unwise to recommend an increase in hospitals' charity care load without any examination as to whether they have the capacity to absorb this increase. A number of Washington hospitals are still having financial problems, and the charity care burden, as the paper notes, is now on the increase.

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The paper states that an increase in charity care requirements would bring Washington law in step with other states. We do not understand this statement because we know of no other states that have a legal requirement for charity care at any level. The Washington State Hospital Association (WSHA) supported the charity care law when passed, and we believe our state is a pioneer in having any legal requirement in this area. The paper also cites the precedent setting example of the Scruggs lawsuits. We believe these ill-informed lawsuits, which have so far been dismissed in the courts, should not be the basis of Washington policy.

The paper shows the decline in charity care as a percent of total revenue. We question why it also does not show the percentage of Washingtonians without insurance. As your office has documented, the percentage of Washingtonians without insurance also declined during the period shown (from 1993 to 2002).

More importantly, the paper fails to mention the fact that in 1993 Washington hospitals began to pay a Business & Occupation tax in order to fund health care for the uninsured. As your paper suggests, providing insurance through the state is a better mechanism than charity care. With the changes in the Business & Occupation tax enacted in 1993, Washington hospitals began to make a direct contribution to care for the uninsured through support of Basic Health and expanded Medicaid. At the time WSHA, which supported this tax, told our hospitals they could expect to see a decrease in their uncompensated care burden. Showing the decrease in uncompensated care without reference to the millions of dollars hospitals now pay in Business & Occupation tax or the expansions in state programs provides a misleading picture.

We think Washington hospitals are working hard to make sure charity care is provided when needed and to report data in an accurate fashion. We do not understand why the paper cites the practices of Tenet Health Care, an out of state hospital, and their use of negotiated discounts as a part of bad debt. We do not know the background of the issue with Tenet, but the reporting practices discussed would not conform with the Washington State Department of Health reporting requirements for Washington.

Performance and Accountability Expectations of Tax Expenditures

The briefing paper recommends applying performance and accountability standards to the state's exemptions from tax. This may be good public policy. We do not understand, however, why it would be suggested for only tax-exempt hospitals as opposed to a broader view that examines all tax-exempt entities.

We also do not understand why the paper fails to cite WSHA's community benefits reports. For the past five years, we have compiled and published information to

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demonstrate that our urban Washington hospitals provide far more in community benefits than they receive in tax exemptions. Our 2004 report will be available shortly. The enclosed 2003 report shows that 37 urban hospitals spent \$299 million providing community benefits. This is almost double the \$153.4 million in certain federal, state, and local taxes from which the hospitals were exempt.

Public Financing

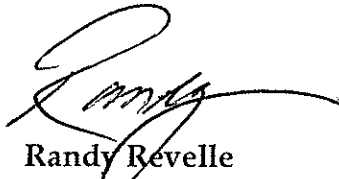
The briefing paper attempts to document the many financing mechanisms that have been designed to help support safety net care provided by hospitals and community health centers. The report does not discuss the fact that many of these mechanisms have been used to their maximum (such as the hospital disproportionate share programs) or that the main beneficiary for dollars from these programs is the state treasury, since the bulk of revenues generated through these mechanisms are transferred back to the state.

We are very disappointed WSHA did not have a chance to review and comment on the briefing paper before its publication, but we hope we can have some discussions about these issues in the future.

Sincerely,



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